

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF EATON RAPIDS	County EATON
Audit Date 6/30/04	Opinion Date 11/20/04	Date Accountant Report Submitted to State: 3/1/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE RD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature <i>Layton & Richardson P.C.</i>		Date 2/28/05	

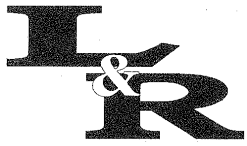
CITY OF EATON RAPIDS, MICHIGAN
EATON COUNTY
FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004
AND
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eaton Rapids, Michigan as of and for the six month period ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Eaton Rapids, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards including U.S. generally accepted government auditing standards as set forth by the U.S. General Accounting Office in Government Auditing Standards - Standards for Audit of Governmental Organizations, Programs, Activities and Functions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Eaton Rapids, Michigan, at June 30, 2004, and the results of its operations and cash flows of its proprietary fund types for the six month period then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the City of Eaton Rapids, Michigan adopted the provision of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus*.

The management's discussion and analysis and the required supplementary information on pages 3 through 8 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued reports dated November 20, 2004 on our consideration of the City of Eaton Rapids, Michigan's internal control structure over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund, and individual account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Eaton Rapids, Michigan. Such information has been subjected to the auditing procedures applied in the audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
November 20, 2004

The City of Eaton Rapids's discussion and analysis is a narrative overview of the City's financial activities for the sixth month period ended June 30, 2004. The City Charter was amended by a vote of the citizens to change the City's fiscal year to June 30. The information presented here should be read in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the sixth months ended June 30, 2004:

- State shared revenues, our second largest General Fund revenue source, was reduced by the State of Michigan this fiscal year. This reduction represents a continued trend over the past several years and amounts to a reduction since the States 2000/01 fiscal year of 45% in the Statutory portion of the payments. While the Constitutional portion of the payments remains stable, the net impact on the total (Constitutional plus Statutory) is a reduction of 14.9%. Given the current State budgetary trends, we would anticipate that the reductions in the Statutory portion of our payments will continue in the short run (two to three years) while discussions on the restructuring of State revenues are anticipated to provide long term stability for most local units of government, including the City of Eaton Rapids.
- Interest revenues from investments remain slightly depressed due to lower than anticipated interest rates. Projected interest rates had been anticipated to improve slightly, however due to the continued slow growth of the Michigan economy, these gains did not occur.
- Property tax base is growing due to generally favorable conditions within the southeastern portion of Eaton County, generally moderate housing costs in relation to other areas surrounding the greater Lansing residential market, and continued investment by local industrial and commercial establishments. The net effect is that General Fund tax revenues are anticipated to continue to increase at a steady and predictable rate.
- Total net assets related to the City's governmental activities increased by approximately \$637,986.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Eaton Rapids on a government-wide basis. They are designed to present a longer-term view of the City's finances. These statements measure of the cost of providing services during the current year, and estimate how closely the taxpayers have funded the full cost of providing government services.

Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

Reporting the City of Eaton Rapids as a Whole

One of the most important questions asked about the City of Eaton Rapids's finances is, "Is the City of Eaton Rapids as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City of Eaton Rapids as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

These two statements report the City of Eaton Rapid's *net assets* and changes in them. You can think of the City of Eaton Rapid's net assets – the difference between assets and liabilities – as one way to measure the City of Eaton Rapid's financial health, or *financial position*. Over time, *increases* or *decreases* in the City of Eaton Rapid's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City of Eaton Rapid's captured property tax base to assess the *overall health* of the City of Eaton Rapids.

Reporting the City of Eaton Rapids's Most Significant Funds

The fund financial statements provide detailed information about the City of Eaton Rapids's funds. The City of Eaton Rapids's funds utilize the *governmental* accounting approach.

- **Governmental funds** – Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation statement presented with the fund financial statements.

- **Proprietary Funds** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the propriety fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets and liabilities agree.

- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Eaton Rapids's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

- **Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

- **Other Information** – In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General Fund. The combining statements in connection with non-major governmental funds are presented immediately following the notes to financial statements.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

The City of Eaton Rapids as a Whole

Statement of Net Assets – As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Eaton Rapids's assets exceeded total liabilities by \$15,254,724 at the close of June 30, 2004. The following table shows, in a condensed format, the net assets as of June 30, 2004. Since this is the initial period the City of Eaton Rapids is reporting with only sixth months due to the fiscal year change on in accordance with GASB Statement # 34, there is no previous year comparable data available. Comparable data will be provided in the June 30, 2005 financial statements.

City of Eaton Rapids's Net Assets

	Governmental Activities	Business-type Activities	Component Units	Total
Current assets	\$ 2,093,960	\$ 3,173,197	\$ 2,958,030	\$ 8,225,187
Noncurrent assets				
Restricted assets		1,785,987		1,785,987
Capital assets	5,028,836	6,467,635	889,148	12,385,619
Total assets	7,122,796	11,426,819	3,847,178	22,396,793
Current liabilities	259,449	780,451	104,813	1,144,713
Long-term liabilities	3,369,388	2,181,297	446,671	5,997,356
Total liabilities	3,628,837	2,961,748	551,484	7,142,069
Net assets				
Invested in capital assets- net of related debt	504,864	345,243	274,959	1,125,066
Restricted	339,341	1,475,451	1,140,280	2,955,072
Unrestricted	2,649,754	6,644,377	1,880,445	11,174,586
Total net assets	\$ 3,493,959	\$ 8,465,071	\$ 3,295,694	\$ 15,254,724

Approximately 7 % of the City's net assets of governmental activities reflect its investment in capital, less any related debt used to acquire those assets that is still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$11,174,586 represent the amount that may be used to meet the City's ongoing obligations.

Changes in Net Assets – The City's total net assets increased by \$1,175,882 during the fiscal year. Governmental activities increased net assets by \$637,986, or 54% of the total growth in net assets of the City of Eaton Rapids. As noted earlier, there is no previous year comparable data available for the government-wide statements issued in accordance with GASB Statement # 34. Comparable data will be provided in the June 30, 2005 financial statements.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

City of Eaton Rapids Changes in Net Assets

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue				
Program revenue				
Charges for services	\$ 91,274	\$ 3,927,788		\$ 4,019,062
Operating grants and contributions	229,780			229,780
General revenue				
Property taxes	950,579		799,583	1,750,162
Sales Tax	258,456	14,951	131	258,456
Miscellaneous	75,491		15,480	90,573
Unrestricted investment earnings	33,826	30,881		80,187
Transfers	635,000			635,000
Total revenues	<u>2,274,406</u>	<u>3,973,620</u>	<u>815,194</u>	<u>7,063,220</u>
Program Expenses				
General government	273,773			273,773
Public safety	459,905			459,905
Public works	300,101			300,101
Community Development & Enrichment	109,192			109,192
Highways and streets	98,629			98,629
Culture and recreation	64,035			64,035
Other	128,792		87,983	216,775
Interest on long-term debt	80,985	49,003	19,429	149,417
Depreciation	121,008	3,459,503	75,000	3,580,511
Transfers		560,000		635,000
Total program expenses	<u>1,636,420</u>	<u>4,068,506</u>	<u>182,412</u>	<u>5,887,338</u>
Increase in net assets	637,986	(94,886)	632,782	1,175,882
Net assets – January 1	2,855,973	9,005,033	2,336,180	14,197,186
Prior Period Adjustments		(445,076)	326,732	(118,344)
Net assets – June 30	<u>\$ 3,493,959</u>	<u>\$ 8,465,071</u>	<u>\$ 3,295,694</u>	<u>\$ 15,254,724</u>

Governmental Activities – Program revenues, which include user fees and charges and operating grants and contributions, represent 14% of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and State revenue sharing.

Business-type Activities – Business-type activities decreased the City of Eaton Rapids's net assets by \$94,886, of which all was in the Utility Fund. The City provides water to residents from municipal water wells. Sewage treatment is provided through a City owned and operated treatment plant. Electrical power is purchased on a wholesale basis and sold at retail to residential, commercial and industrial customers within the City and on a limited basis, to customers outside the municipal boundaries of the City. Water and sewer rates and user charges were adjusted for this fiscal year after a study of the Fund showed that current charges were not covering operating expenses. Revenues from electrical operations within the Utility Fund have historically been used to supplement any shortfalls in the Water or Sewer operations. A rate increase in the purchase cost of wholesale electrical energy has resulted in reduced margins for the electrical operation and as a result a rate study has been authorized to review and adjust rates and user charges as needed. It is anticipated that this study will be completed prior to the beginning of the 2005/2006 fiscal year.

City of Eaton Rapids, Michigan

Management's Discussion and Analysis (continued)

Financial Analysis of the City's Funds

Our analysis of the City's major funds begins on the pages following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing. The City of Eaton Rapids's major funds for 2003/2004 are the General Fund, the Major Streets Fund, the Local Streets Fund, the Parks and Recreation Fund, and the Building Authority Fund, and the Utility Fund.

The General Fund accounts for most of the City's governmental services. General administrative, police, and fire services account for over 83% of the total General Fund expenditures. The reduction in State shared revenues and investment income resulted in the City cutting expenses in preparation for this budget and throughout the year. While administration has stopped short of cutting personnel within the General Fund departments, a number of positions have been allowed to remain vacant, including positions in the PublicWorks Department, the Police Department and general administrative positions. In addition a review of services provided by General Fund departments has taken place over the past twelve months and resulted in modification to services and the reduction of funding for such activities as brush pick-up and sidewalk repair. The fees charged for many services, particularly in the Police Department, have also been increased and this remains an on-going area of review with new fees and increased of existing fees planned for the next fiscal year.

The City of Eaton Rapids sold general obligation bonds in September, 2004 in the amount of \$ 9,545,000 that will be used for improvements for the City's wastewater plan and the collection system. The treatment plant and the mechanical equipment and systems needed to make it function properly had not seen any upgrades for twenty five years. In addition new treatment processes that are more effective and less costly to operate could be incorporated into an upgraded facility. The collection system of pipes that runs throughout the city is also in disrepair which lets ground water enter the collection system and results in significantly higher volumes of water being treated at the wastewater plant than would normally be the case. The intent of this project, which is being implemented through the State Revolving Fund, is to address the majority of these deficiencies. To make the principal and interest payments on the bonds, voters of the City approved extra voted millage which began in December, 2004 to help pay for the costs of these improvements.

General Fund Budgetary Highlights

Over the course of the year, the City monitors and amends the budget to take into account unanticipated events during the year. At year end, actual General Fund revenues were only \$240,058 less than the original and final budget. Expenditures were originally and amended for budgeting to exceed revenues and net operating transfers by \$155,000. The actual was \$497,016 revenues over expenditures.

Capital Assets and Debt Administration

At the end of the short fiscal year 2004, the City had approximately \$12,385,619 invested in land, land improvements, buildings, water and sewer lines, vehicles and equipment. See Note 6 to the basic financial statements for additional information.

Debt reported in Note 7 to these financial statements is related to the construction and maintenance of the above-mentioned assets with the exception of CDGG loan.

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2004/2005 fiscal year included the growth of the property tax base due to addition of parcels and residential growth and some industrial expansion projects. The City continues to levy the maximum tax rate allowable under the Charter and within the limitations imposed by both the Headley Amendment and Proposal A. Because there is uncertainty in the continued availability State revenues as well as concerns about new and increased fees imposed by State departments on the various services they mandate for local governments, we continue to watch and monitor these areas very carefully. Efforts to convince state leaders to allow local governments the ability to develop new revenue sources to counteract the limiting factors that restrict the growth on existing property to the rate of inflation, have to date been unsuccessful. As a result, the City will continue to watch its budget closely.

Despite these concerns, the City continues to operate with an efficient and effective labor force. We expect to continue to provide annual wage increases despite the pressure of increases in medical and other personnel related costs. In addition, the funding of retiree health care is a growing concern and one that will need to re-examined in the near future to insure that we have adequately addressed and anticipated the future budgetary impact.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2004

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Cash	\$ 1,784,039	\$ 2,055,609	\$ 3,839,648	\$ 2,955,453
Investments	78,962		78,962	
Receivables				
Accounts		727,385	727,385	
Accrued interest	1,113	2,395	3,508	2,577
Due from				
Other funds	7,651		7,651	
State	222,195		222,195	
Inventory		364,524	364,524	
Restricted assets				
Cash and investments		1,785,987	1,785,987	
Note receivable		23,284	23,284	
Fixed assets (net of accumulated depreciation)	<u>5,028,836</u>	<u>6,467,635</u>	<u>11,496,471</u>	<u>889,148</u>
 TOTAL ASSETS	 <u>\$ 7,122,796</u>	 <u>\$ 11,426,819</u>	 <u>\$ 18,549,615</u>	 <u>\$ 3,847,178</u>

See accompanying notes to financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current liabilities				
Payables				
Accounts	\$ 40,486	\$ 488,997	\$ 529,483	\$ 148
Payroll and payroll taxes	40,005	41,732	81,737	
Due to State		365	365	
Accrued interest	53,958	25,599	79,557	2,550
Deposits payable		120,990	120,990	
Bonds and notes payable	125,000	182,768	307,768	102,115
Noncurrent liabilities				
Bonds and notes payable	3,275,000	2,073,490	5,348,490	446,671
Accrued sick and vacation pay	94,388	27,807	122,195	
TOTAL LIABILITIES	<u>3,628,837</u>	<u>2,961,748</u>	<u>6,590,585</u>	<u>551,484</u>
NET ASSETS				
Invested in capital assets, net of related debt	504,864	345,243	850,107	274,959
Restricted for				
Economic development		401,174	401,174	
Electric utility		376,513	376,513	
Water utility		441,491	441,491	
Sewer utility		240,746	240,746	
Bond retirement		15,527	15,527	
TIFA I				219,824
TIFA II				268,197
Cemetery perpetual care	116,966		116,966	
Debt service	84,065		84,065	652,259
Island project	16,981		16,981	
Fire department	121,329		121,329	
Unrestricted	<u>2,649,754</u>	<u>6,644,377</u>	<u>9,294,131</u>	<u>1,880,455</u>
TOTAL NET ASSETS	<u>3,493,959</u>	<u>8,465,071</u>	<u>11,959,030</u>	<u>3,295,694</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,122,796</u>	<u>\$ 11,426,819</u>	<u>\$ 18,549,615</u>	<u>\$ 3,847,178</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

		PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
	EXPENSES		
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental activities			
General government	\$ 273,773	\$ 60,691	\$
Public safety	459,905	30,583	
Public works	300,101		
Community development and enrichment	109,192		
Highways and streets	98,629		229,780
Culture and recreation	64,035		
Other	128,792		
Interest on long-term debt	80,985		
Depreciation	121,008		
Total Governmental Activities	<u>1,636,420</u>	<u>91,274</u>	<u>229,780</u>
Business-Type Activities			
Utility fund	<u>3,508,506</u>	<u>3,927,788</u>	
Total Primary Government	<u>\$ 5,144,926</u>	<u>\$ 4,019,062</u>	<u>\$ 229,780</u>
Component Units			
LDFA Island Industrial Park	\$ 96,668	\$	\$
TIFA I Downtown Development Authority	9,136		
TIFA II Enterprise Industrial Park	<u>1,608</u>		
Total Component Units	<u>\$ 107,412</u>	<u>\$</u>	<u>\$</u>
General Revenues			
Property taxes levied for general purposes			
Sales taxes			
Miscellaneous			
Restricted investment earnings			
Unrestricted investment earnings			
Transfers			
Total General Revenues and Transfers			
Change in net assets			
NET ASSETS, JANUARY 1			
PRIOR PERIOD ADJUSTMENT			
NET ASSETS, JUNE 30			

See accompanying notes to financial statements.

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			COMPONENT UNITS
	PRIMARY GOVERNMENT		TOTAL	
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES		
\$	\$ (213,082)	\$	\$ (213,082)	\$
	(429,322)		(429,322)	
	(300,101)		(300,101)	
	(109,192)		(109,192)	
	131,151		131,151	
	(64,035)		(64,035)	
	(128,792)		(128,792)	
	(80,985)		(80,985)	
	(121,008)		(121,008)	
	(1,315,366)		(1,315,366)	
		419,282	419,282	
\$	(1,315,366)	419,282	(896,084)	
\$				(96,668)
				(9,136)
				(1,608)
\$				(107,412)
	950,579		950,579	799,583
	258,456		258,456	
	75,491	14,951	90,442	131
		22,432	22,432	
	33,826	8,449	42,275	15,480
	635,000	(560,000)	75,000	(75,000)
	1,953,352	(514,168)	1,439,184	740,194
	637,986	(94,886)	543,100	632,782
	2,855,973	9,005,033	11,861,006	2,336,180
		(445,076)	(445,076)	326,732
\$	\$ 3,493,959	\$ 8,465,071	\$ 11,959,030	\$ 3,295,694

CITY EATON RAPIDS, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2004

ASSETS

	GENERAL	MAJOR STREET	LOCAL STREET
ASSETS			
Cash	\$ 607,440	\$ 269,786	\$ 309,532
Investments			31,585
Due from			
Other funds	7,651		
State	184,847	28,853	8,495
Lease receivable			
Accrued interest receivable	281	317	339
TOTAL ASSETS	<u>\$ 800,219</u>	<u>\$ 298,956</u>	<u>\$ 349,951</u>

LIABILITIES AND FUND EQUITY

LIABILITIES			
Payables			
Accounts	\$ 32,758	\$ 2,941	\$ 1,333
Payroll and payroll taxes	32,456	832	130
Deferred revenue			
TOTAL LIABILITIES	<u>65,214</u>	<u>3,773</u>	<u>1,463</u>
FUND BALANCE			
Reserved for Island project			
Reserved for cemetery perpetual care			
Reserved for fire department			
Reserved for debt service			
Unreserved, reported in			
General fund	735,005		
Special revenue funds		295,183	348,488
TOTAL FUND BALANCE	<u>735,005</u>	<u>295,183</u>	<u>348,488</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 800,219</u>	<u>\$ 298,956</u>	<u>\$ 349,951</u>

See accompanying notes to financial statements.

PARKS AND RECREATION	BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 45,614 47,377	\$ 84,065	\$ 272,977	\$ 1,589,414 78,962
	3,400,000		7,651 222,195 3,400,000
<u>58</u>	<u>3,400,000</u>	<u>118</u>	<u>1,113</u>
\$ <u>93,049</u>	\$ <u>3,484,065</u>	\$ <u>273,095</u>	\$ <u>5,299,335</u>
\$ 1,630 4,836	\$	\$ 1,824 1,751	\$ 40,486 40,005 3,400,000
<u>6,466</u>	<u>3,400,000</u> <u>3,400,000</u>	<u>3,575</u>	<u>3,480,491</u>
16,981	84,065	116,966 121,329	16,981 116,966 121,329 84,065
<u>69,602</u>	<u>84,065</u>	<u>31,225</u>	<u>735,005</u> <u>744,498</u>
<u>86,583</u>		<u>269,520</u>	<u>1,818,844</u>
\$ <u>93,049</u>	\$ <u>3,484,065</u>	\$ <u>273,095</u>	\$ <u>5,299,335</u>

CITY OF EATON RAPIDS, MICHIGAN

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2004**

Total fund balance-governmental funds		\$	1,818,844
Amounts reported for governmental activities in the statement of net assets are different because			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 7,205,829 and the accumulated depreciation is \$ 2,176,992			5,028,836
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.			194,625
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Long-term liabilities at year-end consist of:			
Bonds payable	\$	(3,400,000)	
Accrued interest		(53,958)	
Compensated absences		(94,388)	(3,548,346)
TOTAL NET ASSETS-GOVERNMENTAL ACTIVITIES		\$	<u>3,493,959</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	GENERAL	MAJOR STREET	LOCAL STREET
REVENUES			
Taxes and special assessments	\$ 863,885	\$	\$
Licenses and permits	290		
Intergovernmental	258,456	172,607	57,173
Charges for services	45,846		
Fines and forfeits	30,583		
Interest and rentals	26,445	1,452	1,880
Other revenues	<u>43,677</u>	<u>15,776</u>	
TOTAL REVENUES	<u>1,269,182</u>	<u>189,835</u>	<u>59,053</u>
EXPENDITURES			
General government	253,709		
Public safety	428,888		
Public works	285,845		
Culture and recreation			
Community development and enrichment	104,463		
Debt service			
Principal retirement			
Interest and fiscal charges			
Other	93,761		
Highways and streets		76,172	22,548
Capital outlay			
TOTAL EXPENDITURES	<u>1,166,666</u>	<u>76,172</u>	<u>22,548</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>102,516</u>	<u>113,663</u>	<u>36,505</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	635,000		15,000
Operating transfers out	<u>(240,500)</u>	<u>(15,000)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>394,500</u>	<u>(15,000)</u>	<u>15,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	497,016	98,663	51,505
FUND BALANCE, JANUARY 1	<u>237,989</u>	<u>196,520</u>	<u>296,983</u>
FUND BALANCE, JUNE 30	\$ <u><u>735,005</u></u>	\$ <u><u>295,183</u></u>	\$ <u><u>348,488</u></u>

See accompanying notes to financial statements.

PARK AND RECREATION	COMPONENT UNIT BUILDING AUTHORITY	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 86,694	\$	\$	\$ 950,579
221			511
			488,236
		14,334	60,180
718	2,633	698	30,583
5,922		2,319	33,826
<u>93,555</u>	<u>2,633</u>	<u>17,351</u>	<u>67,694</u>
			1,631,609
			253,709
			428,888
			285,845
54,287			54,287
		4,795	109,258
	125,000		125,000
	82,456		82,456
		41,509	135,270
	27,833		98,720
<u>54,287</u>	<u>235,289</u>	<u>46,304</u>	<u>27,833</u>
			1,601,266
39,268	(232,656)	(28,953)	30,343
3,000	207,500	30,000	890,500
<u>3,000</u>	<u>207,500</u>	<u>30,000</u>	<u>(255,500)</u>
			635,000
42,268	(25,156)	1,047	665,343
44,315	109,221	268,473	1,153,501
\$ <u>86,583</u>	\$ <u>84,065</u>	\$ <u>269,520</u>	\$ <u>1,818,844</u>

CITY OF EATON RAPIDS, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004**

Net changes in fund balances-total governmental funds	\$ 665,343
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	41,014
Less: current year depreciation	(121,008)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Accrued interest	1,472
Principal payments	125,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	(84,668)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities.	10,833
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>637,986</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE SIX MONTH PERIOD ENDED JUNE 30,2004

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes				
Property taxes	\$ 784,300	\$ 784,300	\$ 863,552	\$ 79,252
Penalties and interest	5,000	5,000		(5,000)
Trailer fee	750	750	334	(416)
Total Taxes	790,050	790,050	863,886	73,836
Licenses and Permits				
Licenses	300	300	290	(10)
Franchise fees	23,200	23,200		(23,200)
Total Licenses and Permits	23,500	23,500	290	(23,210)
Intergovernmental				
Sales tax	525,200	525,200	258,456	(266,744)
Charges for Services				
Administrative fees	45,700	45,700	44,176	(1,524)
Video fees	5,200	5,200	1,671	(3,529)
Cemetery sales	18,500	18,500	10,414	(8,086)
Total Charges for Services	69,400	69,400	56,261	(13,139)
Fines and Forfeits	34,800	34,800	30,583	(4,217)
Other Revenues				
Interest on investments	24,000	24,000	11,290	(12,710)
Rentals	25,740	25,740	15,155	(10,585)
Reimbursements	500	500		(500)
Miscellaneous	16,050	16,050	33,261	17,211
Total Other Revenues	66,290	66,290	59,706	(6,584)
TOTAL REVENUES	1,509,240	1,509,240	1,269,182	(240,058)
EXPENDITURES				
General Government				
City Council	28,300	28,300	23,059	5,241
City Manager	4,200	4,200	712	3,488
General election	7,400	7,400	206	7,194
Assessor	78,586	78,586	41,322	37,264
Attorney	60,000	60,000	67,309	(7,309)
Clerk-Treasurer	80,592	80,592	43,491	37,101
Board of review	700	700	210	490
Buildings and grounds	11,500	11,500	9,138	2,362
Planning commission	3,220	3,220	8,950	(5,730)
Zoning board of appeals	800	800	200	600
Senior citizens	6,000	6,000		6,000
City election	3,300	3,300	3,992	(692)
General-allocated	79,250	79,250	55,120	24,130
Total General Government	363,848	363,848	253,709	110,139

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL - Concluded

GENERAL FUND

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
EXPENDITURES - Concluded				
Public Safety				
Police	\$ 785,515	\$ 785,515	\$ 389,535	\$ 395,980
Fire	<u>88,020</u>	<u>88,020</u>	<u>39,353</u>	<u>48,667</u>
Total Public Safety	<u>873,535</u>	<u>873,535</u>	<u>428,888</u>	<u>444,647</u>
Public Works				
Public services	<u>438,821</u>	<u>438,821</u>	<u>272,797</u>	<u>166,024</u>
Community Development and Enrichment				
Library	205,805	205,805	101,963	103,842
Other	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	
Total Community Development and Enrichment	<u>208,305</u>	<u>208,305</u>	<u>104,463</u>	<u>103,842</u>
Other functions				
Cemetery	150,831	150,831	85,624	65,207
Storm sewers	18,450	18,450	13,048	5,402
Ambulance	100	100		100
Capital outlay	42,350	42,350	8,137	34,213
Contingencies	<u>500</u>	<u>500</u>		<u>500</u>
Total Other Functions	<u>212,231</u>	<u>212,231</u>	<u>106,809</u>	<u>105,422</u>
TOTAL EXPENDITURES	<u>2,096,740</u>	<u>2,096,740</u>	<u>1,166,666</u>	<u>930,074</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(587,500)</u>	<u>(587,500)</u>	<u>102,516</u>	<u>690,016</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	635,000	635,000	635,000	
Operating transfers out	<u>(47,500)</u>	<u>(202,500)</u>	<u>(240,500)</u>	<u>(38,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>587,500</u>	<u>432,500</u>	<u>394,500</u>	<u>(38,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		(155,000)	497,016	652,016
FUND BALANCE, JANUARY 1	<u>237,989</u>	<u>237,989</u>	<u>237,989</u>	
FUND BALANCE, JUNE 30	\$ <u><u>237,989</u></u>	\$ <u><u>82,989</u></u>	\$ <u><u>735,005</u></u>	\$ <u><u>652,016</u></u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

MAJOR STREET FUND

FOR THE SIX MONTH PERIOD ENDED JUNE 30,2004

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
REVENUES				
State grants	\$ 268,000	\$ 268,000	\$ 172,607	\$ (95,393)
Interest on investments	7,000	7,000	1,452	(5,548)
Miscellaneous			15,776	15,776
TOTAL REVENUES	<u>275,000</u>	<u>275,000</u>	<u>189,835</u>	<u>(85,165)</u>
EXPENDITURES				
Highways and streets	<u>260,000</u>	<u>260,000</u>	<u>76,172</u>	<u>183,828</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>15,000</u>	<u>15,000</u>	<u>113,663</u>	<u>98,663</u>
OTHER FINANCING USES				
Operating transfers out	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			98,663	98,663
FUND BALANCE, JANUARY 1	<u>196,520</u>	<u>196,520</u>	<u>196,520</u>	
FUND BALANCE, JUNE 30	<u>\$ 196,520</u>	<u>\$ 196,520</u>	<u>\$ 295,183</u>	<u>\$ 98,663</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE SIX MONTH PERIOD ENDED JUNE 30,2004

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
State grants	\$ 80,000	\$ 80,000	\$ 57,173	\$ (22,827)
Interest on investments	<u>3,000</u>	<u>3,000</u>	<u>1,880</u>	<u>(1,120)</u>
TOTAL REVENUES	<u>83,000</u>	<u>83,000</u>	<u>59,053</u>	<u>(23,947)</u>
EXPENDITURES				
Highways and streets	<u>98,000</u>	<u>98,000</u>	<u>22,548</u>	<u>75,452</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(15,000)</u>	<u>(15,000)</u>	<u>36,505</u>	<u>51,505</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			51,505	51,505
FUND BALANCE, JANUARY 1	<u>296,983</u>	<u>296,983</u>	<u>296,983</u>	
FUND BALANCE, JUNE 30	<u>\$ 296,983</u>	<u>\$ 296,983</u>	<u>\$ 348,488</u>	<u>\$ 51,505</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

PARKS AND RECREATION FUND

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes	\$ 75,000	\$ 75,000	\$ 86,694	\$ 11,694
Charges for services	4,000	4,000	221	(3,779)
Interest and rent	3,500	3,500	718	(2,782)
Other revenues	5,100	5,100	5,922	822
TOTAL REVENUES	<u>87,600</u>	<u>87,600</u>	<u>93,555</u>	<u>5,955</u>
EXPENDITURES				
Culture and recreation	69,175	69,175	54,287	14,888
Capital outlay	21,425	21,425		21,425
TOTAL EXPENDITURES	<u>90,600</u>	<u>90,600</u>	<u>54,287</u>	<u>36,313</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,000)</u>	<u>(3,000)</u>	<u>39,268</u>	<u>42,268</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			42,268	42,268
FUND BALANCE, JANUARY 1	<u>44,315</u>	<u>44,315</u>	<u>44,315</u>	
FUND BALANCE, JUNE 30	<u>\$ 44,315</u>	<u>\$ 44,315</u>	<u>\$ 86,583</u>	<u>\$ 42,268</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

BLENDED COMPONENT UNIT - BUILDING AUTHORITY

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Interest earned	\$ <u> </u>	\$ <u> </u>	\$ <u> 2,633</u>	\$ <u> 2,633</u>
EXPENDITURES				
Note principal	125,000	125,000	125,000	
Note interest and fees	82,456	82,456	82,456	
Capital outlay	<u>975,000</u>	<u>825,000</u>	<u>27,833</u>	<u>797,167</u>
TOTAL EXPENDITURES	<u>1,182,456</u>	<u>1,032,456</u>	<u>235,289</u>	<u>797,167</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,182,456)</u>	<u>(1,032,456)</u>	<u>(232,656)</u>	<u>799,800</u>
OTHER FINANCING SOURCES				
Operating transfer in	<u>288,125</u>	<u>288,125</u>	<u>207,500</u>	<u>80,625</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(894,331)</u>	<u>(744,331)</u>	<u>(25,156)</u>	<u>(719,175)</u>
FUND BALANCE, JANUARY 1	<u>109,221</u>	<u>109,221</u>	<u>109,221</u>	
FUND BALANCE, JUNE 30	\$ <u><u>(785,110)</u></u>	\$ <u><u>(635,110)</u></u>	\$ <u><u>84,065</u></u>	\$ <u><u>(719,175)</u></u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,055,609	\$ 194,625
Receivables		
Accounts	718,327	
Other	9,058	
Accrued interest	2,395	
Note receivable	912	
Inventory	364,524	
TOTAL CURRENT ASSETS	<u>3,150,825</u>	<u>194,625</u>
RESTRICTED ASSETS		
Cash and investments	1,769,550	
Accrued interest	16,437	
TOTAL RESTRICTED ASSETS	<u>1,785,987</u>	
PROPERTY, PLANT AND EQUIPMENT		
Vehicles		37,826
Water department	5,259,067	
Electric department	5,272,300	
Sewage department	4,961,953	
	15,493,320	37,826
Less: accumulated depreciation	9,025,685	26,278
NET PROPERTY, PLANT AND EQUIPMENT	<u>6,467,635</u>	<u>11,548</u>
OTHER ASSETS		
Note receivable-long-term	22,372	
TOTAL ASSETS	\$ <u>11,426,819</u>	\$ <u>206,173</u>

See accompanying notes to financial statements.

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE FUNDS
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable	\$ 145,000	\$
Notes payable	37,768	
Accounts payable	488,997	
Accrued interest payable	25,599	
Accrued payroll and payroll taxes	41,732	
Accrued compensated absences	27,807	
Due to state	365	
TOTAL CURRENT LIABILITIES	767,268	
LONG-TERM LIABILITIES		
Bonds payable	1,914,806	
Notes payable	158,684	
TOTAL LONG-TERM LIABILITIES	2,073,490	
RESTRICTED LIABILITIES		
Refundable meter deposits	120,990	
TOTAL LIABILITIES	2,961,748	
NET ASSETS AND CONTRIBUTED CAPITAL		
CONTRIBUTED CAPITAL(NET OF AMORTIZATION)		
Local	351,584	
Federal	900,870	
State	380,006	
TOTAL CONTRIBUTED CAPITAL	1,632,460	
NET ASSETS		
Reserved for		
Economic development	401,174	
Electric utility	376,513	
Water utility	441,491	
Sewer utility	240,746	
Bond retirement	15,527	
Unrestricted	5,357,160	206,173
TOTAL NET ASSETS	6,832,611	206,173
TOTAL NET ASSETS AND CONTRIBUTED CAPITAL	8,465,071	206,173
TOTAL LIABILITIES AND NET ASSETS	\$ 11,426,819	\$ 206,173

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES
	UTILITY FUND	INTERNAL SERVICE FUNDS
OPERATING REVENUES		
Charges for services	\$ 3,927,788	\$
Fines and forfeitures	7,113	
Other revenue	7,837	298,598
TOTAL OPERATING REVENUES	<u>3,942,738</u>	<u>298,598</u>
OPERATING EXPENSES		
Personnel services	532,428	
Contractual services	67,105	
Supplies	15,903	
Materials	65,084	
Utilities	70,006	
Telephone	9,158	
Insurance	33,520	
Maintenance	2,204,091	
Benefit payments	178,582	287,765
Other expense	32,790	
Depreciation	250,835	7,559
TOTAL OPERATING EXPENSES	<u>3,459,502</u>	<u>295,324</u>
OPERATING INCOME	<u>483,236</u>	<u>3,274</u>
NONOPERATING REVENUES (EXPENSES)		
Interest earned	30,881	
Interest expense	(49,003)	
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(18,122)</u>	
INCOME BEFORE OPERATING TRANSFERS	465,114	3,274
OPERATING TRANSFERS		
Operating transfers out	<u>(560,000)</u>	
NET INCOME (LOSS)	(94,886)	3,274
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITIONS AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	49,018	
NET ASSETS, JANUARY 1	7,323,555	202,899
PRIOR PERIOD ADJUSTMENT	<u>(445,076)</u>	
NET ASSETS, JUNE 30	<u>\$ 6,832,611</u>	<u>\$ 206,173</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,881,458	\$ 290,801
Cash received from penalties	7,113	
Cash received from miscellaneous	7,838	7,797
Payment to suppliers	(2,655,265)	(287,765)
Payments to employees	(499,622)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>741,522</u>	<u>10,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>22,949</u>	
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating transfer out	<u>(560,000)</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Increase in restricted assets	(10,160)	
Increase in restricted liabilities	10,160	
Decrease in long-term debt	(79,829)	
Interest and fiscal charges	(49,500)	
Purchase of capital assets	<u>(279,571)</u>	
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(408,900)</u>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(204,429)	10,833
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>2,260,038</u>	<u>183,792</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 2,055,609</u></u>	<u><u>\$ 194,625</u></u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CASH FLOWS - Concluded
PROPRIETARY FUNDS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS UTILITY FUND	GOVERNMENTAL ACTIVITIES INTERNAL SERVICE
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 483,236	\$ 3,274
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	250,835	7,559
Changes in assets and liabilities		
Increase in accounts receivable	(46,330)	
Decrease in due from other funds	19,990	
Increase in inventory	(19,151)	
Increase in accounts payable	19,908	
Decrease in accrued payroll	(5,041)	
Increase in accrued sick and vacation	37,848	
Increase in other liabilities	227	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>741,522</u>	\$ <u>10,833</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	TRUST AND AGENCY FUND	AGENCY FUND TAX FUND	TOTAL
ASSETS			
Cash	\$ 85	\$ 9,160	\$ 9,245
Taxes receivable		51,170	51,170
Accrued interest		175	175
TOTAL ASSETS	\$ <u>85</u>	\$ <u>60,505</u>	\$ <u>60,590</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Due to local units	\$ 85	\$ 52,854	\$ 52,939
Due to other funds		7,651	7,651
TOTAL LIABILITIES	\$ <u>85</u>	\$ <u>60,505</u>	\$ <u>60,590</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	JANUARY 1, 2004	ADDITIONS	DEDUCTIONS	JUNE 30, 2004
TRUST AND AGENCY FUND				
ASSETS				
Cash	\$ <u>785</u>	\$ <u>1,668</u>	\$ <u>2,368</u>	\$ <u>85</u>
LIABILITIES				
Due to county	\$ <u>785</u>	\$ <u>1,668</u>	\$ <u>2,368</u>	\$ <u>85</u>
CURRENT TAX COLLECTION FUND				
ASSETS				
Cash	\$ 1,369,212	\$ 2,035,184	\$ 3,395,236	\$ 9,160
Taxes receivable	1,871,116	41,713	1,861,659	51,170
Accrued interest	<u>1,593</u>	<u>175</u>	<u>1,593</u>	<u>175</u>
TOTAL ASSETS	\$ <u>3,241,921</u>	\$ <u>2,077,072</u>	\$ <u>5,258,488</u>	\$ <u>60,505</u>
LIABILITIES				
Due to other funds	\$ 1,672,760	\$	\$ 1,672,149	\$ 611
Due to county	687,841		680,147	7,694
Due to schools	952,088		951,058	1,030
Due to other units	166,968		166,968	
Uncollected taxes payable	<u>31,109</u>	<u>198,946</u>	<u>178,885</u>	<u>51,170</u>
TOTAL LIABILITIES	\$ <u>3,510,766</u>	\$ <u>198,946</u>	\$ <u>3,649,207</u>	\$ <u>60,505</u>
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 1,369,997	\$ 2,036,852	\$ 3,397,604	\$ 9,245
Taxes receivable	1,871,116	41,713	1,861,659	51,170
Accrued interest	<u>1,593</u>	<u>175</u>	<u>1,593</u>	<u>175</u>
TOTAL ASSETS	\$ <u>3,242,706</u>	\$ <u>2,078,740</u>	\$ <u>5,260,856</u>	\$ <u>60,590</u>
LIABILITIES				
Due to other funds	\$ 1,672,760	\$	\$ 1,672,149	\$ 611
Due to county	688,626	1,668	682,515	7,779
Due to schools	952,088		951,058	1,030
Due to other units	166,968		166,968	
Uncollected taxes payable	<u>31,109</u>	<u>198,946</u>	<u>178,885</u>	<u>51,170</u>
TOTAL LIABILITIES	\$ <u>3,511,551</u>	\$ <u>200,614</u>	\$ <u>3,651,575</u>	\$ <u>60,590</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

BALANCE SHEET

NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Cash	\$ 34,788	\$ 120,101	\$ 118,088	\$ 272,977
Accrued interest receivable	12	106		118
TOTAL ASSETS	<u>\$ 34,800</u>	<u>\$ 120,207</u>	<u>\$ 118,088</u>	<u>\$ 273,095</u>
 LIABILITIES AND FUND BALANCE				
LIABILITIES				
Payables				
Accounts	\$ 1,824	\$	\$	\$ 1,824
Payroll and payroll taxes	1,751			1,751
TOTAL LIABILITIES	<u>3,575</u>			<u>3,575</u>
 FUND BALANCE				
Reserved for cemetery perpetual care			116,966	116,966
Reserved for fire department		120,207	1,122	121,329
Unreserved	31,225			31,225
TOTAL FUND BALANCE	<u>31,225</u>	<u>120,207</u>	<u>118,088</u>	<u>269,520</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 34,800</u>	 <u>\$ 120,207</u>	 <u>\$ 118,088</u>	 <u>\$ 273,095</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	SPECIAL REVENUE	CAPITAL PROJECTS	PERMANENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES				
Charges for services	\$ 14,334	\$	\$	\$ 14,334
Interest and rentals	73	625		698
Other revenues	978		1,341	2,319
TOTAL REVENUES	<u>15,385</u>	<u>625</u>	<u>1,341</u>	<u>17,351</u>
EXPENDITURES				
Public safety	4,795			4,795
Other	41,509			41,509
TOTAL EXPENDITURES	<u>46,304</u>			<u>46,304</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(30,919)</u>	<u>625</u>	<u>1,341</u>	<u>(28,953)</u>
OTHER FINANCING SOURCES				
Operating transfers in	<u>30,000</u>			<u>30,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(919)</u>	<u>625</u>	<u>1,341</u>	<u>1,047</u>
FUND BALANCE, JANUARY 1	<u>32,144</u>	<u>119,582</u>	<u>116,747</u>	<u>268,473</u>
FUND BALANCE, JUNE 30	<u>\$ 31,225</u>	<u>\$ 120,207</u>	<u>\$ 118,088</u>	<u>\$ 269,520</u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

COMPONENT UNITS

JUNE 30, 2004

	L DFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
ASSETS				
Cash	\$ 2,606,850	\$ 80,640	\$ 267,963	\$ 2,955,453
Accrued interest	2,343		234	2,577
Capital assets (net of accumulated depreciation)	<u>749,964</u>	<u>139,184</u>	<u></u>	<u>889,148</u>
TOTAL ASSETS	<u><u>\$ 3,359,157</u></u>	<u><u>\$ 219,824</u></u>	<u><u>\$ 268,197</u></u>	<u><u>\$ 3,847,178</u></u>
LIABILITIES				
Accounts payable	\$ 148	\$	\$	\$ 148
Accrued interest	2,550			2,550
Long-term liabilities				
Portion due within one year	102,115			102,115
Portion due after one year	<u>446,671</u>	<u></u>	<u></u>	<u>446,671</u>
TOTAL LIABILITIES	<u>551,484</u>	<u></u>	<u></u>	<u>551,484</u>
NET ASSETS				
Reserved for TIFA I		219,824		219,824
Reserved for TIFA II			268,197	268,197
Reserved for debt service	652,259			652,259
Invested in capital assets, net of related debt	274,959			274,959
Unreserved	<u>1,880,455</u>	<u></u>	<u></u>	<u>1,880,455</u>
TOTAL NET ASSETS	<u>2,807,673</u>	<u>219,824</u>	<u>268,197</u>	<u>3,295,694</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,359,157</u></u>	<u><u>\$ 219,824</u></u>	<u><u>\$ 268,197</u></u>	<u><u>\$ 3,847,178</u></u>

See accompanying notes to financial statements.

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

		PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Component Units			
LDFA Island Industrial Park	\$ 77,239	\$	\$
TIFA I Downtown Development Authority	9,136		
TIFA II Enterprise Industrial Park	<u>1,608</u>	<u></u>	<u></u>
Total Component Units	\$ <u>87,983</u>	\$ <u></u>	\$ <u></u>
General Revenues			
Property taxes			
Miscellaneous			
Unrestricted investment earnings			
Interest expense			
Transfers			
Total General Revenues and Transfers			
Change in Net Assets			
NET ASSETS, JANUARY 1			
PRIOR PERIOD ADJUSTMENT			
NET ASSETS, JUNE 30			

See accompanying notes to financial statements.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

PROGRAM REVENUES CAPITAL GRANTS AND CONTRIBUTIONS	LDFA ISLAND INDUSTRIAL PARK	TIFA I DOWNTOWN DEVELOPMENT AUTHORITY	TIFA II ENTERPRISE INDUSTRIAL PARK	TOTAL
\$	\$ (77,239)	\$ (9,136)	\$	\$ (77,239)
			(1,608)	(9,136)
			(1,608)	(1,608)
\$	(77,239)	(9,136)	(1,608)	(87,983)
	718,302	81,281		799,583
	131			131
	13,828	266	1,386	15,480
	(19,429)			(19,429)
	(75,000)			(75,000)
	637,832	81,547	1,386	720,765
	560,593	72,411	(222)	632,782
	2,059,532	8,229	268,419	2,336,180
	187,548	139,184		326,732
\$	\$ 2,807,673	\$ 219,824	\$ 268,197	\$ 3,295,694

CITY OF EATON RAPIDS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Eaton Rapids was incorporated under the laws of the State of Michigan in 1837. The City operates under an elected Mayor - Council (five members) form of government and provides the following services: public safety, highways and street, water, electricity, sanitation, recreation, public improvements, planning, zoning, and general and administrative services.

The accounting policies of the City of Eaton Rapids conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Fiscal Year

The City charter was amended to change the City's fiscal year to June 30. This report represents a short year of January 1, 2004 to June 30, 2004 with the implementation of GASB 34.

B. Reporting Entity

All funds and account groups under direct control of the City of Eaton Rapids are included in this report. These funds and account groups are those which meet the criteria established by the Governmental Accounting Standards Board (GASB) 14, The Financial Reporting Entity and Statement on Michigan Governmental Accounting and Auditing No. 5.

As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Eaton Rapids (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The criteria established by GASB for determining which of the City's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

Discretely Presented Component Units

The TIFA I Downtown Development Authority, TIFA II Enterprise Industrial Park, and LDFA Island Industrial Park of the City of Eaton Rapids, entities legally separate from the City, are governed by a twelve member board appointed by the City Council. For financial reporting purposes, the TIFA I, TIFA II, and LDFA are reported in the component unit column in the combined financial statements. These units are reported in a separate columns to emphasize that they are legally separate from the City.

Blended Component Units

The City of Eaton Rapids council established the City of Eaton Rapids Building Authority under Public Act 31 of Michigan. The three member Authority board's purpose will be to acquire, improve, and maintain buildings other than infrastructure for the City of Eaton Rapids purpose.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the City of Eaton Rapids and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services. The primary government of the City of Eaton Rapids is reported separately from certain legally separate component units for which the City of Eaton Rapids, the primary government, is financially accountable.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

C. Government-Wide and Fund Financial Statements - Concluded

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds and fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Eaton Rapids.

The City of Eaton Rapids reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund.

The Major Street Fund accounts for major street improvements and resurfacing projects.

The Local Street Fund accounts for local street improvements and resurfacing projects.

The Parks and Recreation Fund accounts for the activities used to run and maintain the community center and parks throughout the City.

The 2003 Building Authority Bond Fund (blended component unit) is used to account for the resources accumulated and payments made for principal and interest payments on these bonds.

The City of Eaton Rapids reports the following major proprietary funds:

The Utility Fund accounts for the activities and operations of the electric plant, water and sewage treatment plant and the sewage pumping stations.

Additionally, the City of Eaton Rapids reports the following fund types:

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

D. Measurement Focus, Basis of Accounting and Financial Statements - Concluded

Internal Service Funds are used to account for Motor Pool Services and Public Employee Benefits provided to other departments on a cost reimbursement basis.

The Cemetery Perpetual Care Fund is used to account for resources legally held in trust to be used for cemetery perpetual care. All resources of the fund, including any earnings on invested resources, may be used to support the organization's activities.

The Ted Oliver Memorial Trust Fund accumulates donations to be spent on future purchases of fire equipment.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City of Eaton Rapids has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Utility Fund and other functions and segments.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City of Eaton Rapids' policy to use restricted resources first. Unrestricted resources are used as they are needed.

E. Receivables

Receivables have been recognized for all significant amounts due the City. No allowances have been made for uncollectible amounts because, if they remain unpaid, most delinquent receivables can be added to the tax roll and become a lien against the property.

F. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Eaton Rapids as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

F. Capital Assets - Concluded

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	10-20 years
Buildings	10-40 years
Equipment	5-20 years
Vehicles	3-10 years
Utility systems	10-40 years
Streets	20-25 years
Bridges	20-25 years
Sidewalks	20-25 years

G. Long-term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

H. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

I. Deposits and Investments

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are defined as cash equivalents. All investments for both the primary government and all the component units are reported at fair value.

J. Restricted Assets

Certain proceeds of the Utility Fund, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

K. Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and fiduciary funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

L. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular Council meeting in May, the Budget Committee submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Not later than the third Monday in June, the budget is legally enacted through passage of a resolution.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

L. Budgets and Budgetary Accounting - Concluded

4. The City Manager is authorized to make budgetary transfers between the line items of departments established through this budget, except salaries/wages and capital outlay items, with all transfers reported to the City Council at its next regular meeting. All transfers between departments and all transfers of salaries/wages and capital outlay items within departments may be made only by City Council action.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Debt Service Funds.
6. Budgets for General, Special Revenue and Debt Service Funds are adopted on a basis consistent with U.S. generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations which were amended.
7. All annual appropriations lapse at year end.

The General Fund budget is adopted on an activity level basis, and the Special Revenue Funds budgets are adopted on a total fund level.

M. Investments

Investments are stated at cost, which is equal to market.

N. Inventory

Inventory is valued at the lower of cost (FIFO) or market.

O. Fund Equity Reserves and Designations

Portions of fund equity are segregated for future use and are, therefore, not available for future appropriations or expenditures. Retained earnings and fund balance reserves represent these amounts which are legally, contractually, or otherwise segregated for future use.

Designations of unreserved fund balances in governmental funds indicate the City's tentative plans for use of financial resources in a future period.

NOTE 2: **ACCUMULATED VACATION AND SICK LEAVE**

Accrued vacation and sick leave is recorded as a governmental fund liability at June 30, 2004, to the extent that it is to be liquidated with expendable available financial resources within the current operating cycle.

Vacation days are earned by employees at a rate of 10 to 25 days per year.

Sick days are earned by employees at a rate of 3 days per year. Sick days may be banked with a cap of 240 hours. At the time an employee leaves the City, the banked time would be paid out at 50% of what was in the bank at the rate the time was earned.

Personal leave days are earned by employees at a rate of 5 to 12 days per year.

The accumulated vacation and sick leave balance as of June 30, 2004 was \$136,120.

NOTE 3: **COMMON CASH ACCOUNT**

Cash resources from individual funds are combined to form a pool of cash and investments which is managed by the City Treasurer. The equity in cash and investments of the various funds at June 30, 2004 is as follows:

FUND	COMMON CASH AND CASH EQUIVALENTS		INVESTMENTS
	\$		
General	\$	607,440	\$
Major		269,786	
Local		309,532	
Act 302		13,143	
Parks and recreation		45,614	31,585
CDBG		4,385	47,377
Public improvement		120,101	
Building Authority		84,065	

NOTE 3: **COMMON CASH ACCOUNT - Concluded**

FUND	COMMON CASH AND CASH EQUIVALENTS	INVESTMENTS
Building department	\$ 16,258	\$
Drug law enforcement	1,002	
Utility		
Unrestricted	2,055,609	
Restricted	120,990	1,648,560
Public employee benefit	9,853	
Motor vehicle pool	184,772	
Summer tax	9,160	
Cemetery	116,966	
TIFA I	80,640	
TIFA II	267,963	
LDFA	2,606,850	
Trust and Agency	85	
Ted Oliver Memorial Trust	1,122	
TOTAL	\$ 6,925,336	\$ 1,727,522
Financial statement presentation		
Governmental funds	\$ 1,589,414	\$ 78,962
Proprietary funds	2,250,234	1,648,560
Fiduciary funds	9,245	
Component units	2,955,453	
Restricted cash		
- customer meter deposits	120,990	
TOTAL	\$ 6,925,336	\$ 1,727,522

Cash and Investments

State statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper within the three highest rate classifications by at least two rating services, repurchase agreements collateralized by U.S. Government securities, bankers acceptances and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

As of June 30, 2004, the carrying amount and bank balance for each type of account is as follows:

ACCOUNT TYPE	BOOK BALANCE	BANK BALANCE	FDIC INSURED
Cash deposits	\$ 6,924,561	\$ 6,930,946	\$ 200,000
Certificates of deposit	1,727,521	1,727,521	100,000
Petty cash	775		

The City's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the City. Category 1 includes deposits and investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the City's name.

At June 30, 2004, the City's investments were classified as follows:

Category 1 (Insured)	\$ 100,000
Category 2 (Uninsured)	\$ 1,627,522

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

The following are the interfund receivables and payables at June 30, 2004:

FUND	INTERFUND RECEIVABLE	FUND	INTERFUND PAYABLE
General	\$ <u>7,651</u>	Tax Fund	\$ <u>7,651</u>

NOTE 5: PROPERTY TAX

Property taxes become an enforceable lien on the property as of July 1. Taxes are levied on July 1, and payable by August 31. The City bills and collects its own property taxes and also taxes for the county, intermediate school district, and other school districts. All tax collections are accounted for in a trust and agency fund.

The City is permitted by state statute and City Charter to levy 9.033 mills for general governmental services. A total of 9.033 mills were levied. The residents of the City have approved an additional .9033 mill for recreation. A total of .9033 mill was levied. The total 2003 levy was for general operating purposes. The residents of the City have approved an additional .1100 mills for wastewater improvements.

NOTE 6: CHANGES IN FIXED ASSETS

A summary of changes in governmental capital assets including internal service fund assets are as follows:

	JANUARY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2004
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ <u>632,818</u>	\$ _____	\$ _____	\$ <u>632,818</u>
Capital assets being depreciated				
Buildings	4,999,860	27,833		5,027,693
Improvements	668,382			668,382
Vehicles	269,772			269,772
Machinery and equipment	496,972	3,066		500,038
Books	87,247	10,115		97,362
Infrastructure	<u>9,763</u>	_____	_____	<u>9,763</u>
Total Capital Assets				
Being Depreciated	<u>6,531,996</u>	<u>41,014</u>	_____	<u>6,573,010</u>
Less: Accumulated depreciation				
Buildings	1,549,151	45,822		1,594,973
Improvements	91,773	11,381		103,154
Vehicles	176,178	21,124		197,302
Machinery and equipment	214,363	33,631		247,994
Books	22,891	8,725		31,616
Infrastructure	<u>1,628</u>	<u>325</u>	_____	<u>1,953</u>
Total Accumulated Depreciation	<u>2,055,984</u>	<u>121,008</u>	_____	<u>2,176,992</u>
Total Capital Assets Being Depreciated - Net	<u>4,476,012</u>	(<u>79,994</u>)	_____	<u>4,396,018</u>
NET CAPITAL ASSETS	\$ <u>5,108,830</u>	\$ (<u>79,994</u>)	\$ _____	\$ <u>5,028,836</u>

Depreciation expense for governmental activities was \$121,008 for the six month period ended June 30, 2004.

A summary of the asset activity for the governmental activity component units are as follows:

COMPONENT UNITS	JANUARY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2004
Land	\$ <u>889,148</u>	\$ _____	\$ _____	\$ <u>889,148</u>

NOTE 6: **CHANGES IN FIXED ASSETS - Concluded**

Capital assets for business-type activities have been summarized as follows:

	JANUARY 1, 2004	ADDITIONS	DELETIONS	JUNE 30, 2004
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated				
Water	\$ 5,259,067	\$	\$	\$ 5,259,067
Electric	5,173,759	98,541		5,272,300
Sewage	<u>4,779,922</u>	<u>182,031</u>		<u>4,961,953</u>
Total Capital Assets				
Being Depreciated	<u>15,212,748</u>	<u>280,572</u>		<u>15,493,320</u>
Less: Accumulated depreciation				
Water	2,264,133	75,095		2,339,228
Electric	2,938,056	109,474		3,047,530
Sewage	<u>3,572,661</u>	<u>66,266</u>		<u>3,638,927</u>
Total Accumulated Depreciation	<u>8,774,850</u>	<u>250,835</u>		<u>9,025,685</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ <u>6,437,898</u>	\$ <u>29,737</u>	\$ _____	\$ <u>6,467,635</u>

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Water	\$ 75,095
Electric	109,474
Sewage	<u>66,266</u>
	<u>\$ 250,835</u>

NOTE 7: **LONG-TERM DEBT OBLIGATIONS**

The changes in long-term debt obligations for the City of Eaton Rapids primary government and component units for the six month period ended June 30, 2004 are as follows:

	BALANCE, JANUARY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2004	DUE WITHIN ONE YEAR
Governmental Activities - Primary Government				
\$3,650,000 Building Authority Bonds Series 2003 due in annual installments of \$125,000 to \$275,000 through March, 2002 with interest ranging from 3.50% to 5.20% per annum. The debt requirements will be paid with general operating funds.	\$ <u>3,525,000</u>	\$ (<u>125,000</u>)	\$ <u>3,400,000</u>	\$ <u>125,000</u>
Less: amounts payable within one year			(<u>125,000</u>)	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES PRIMARY GOVERNMENT			\$ <u>3,275,000</u>	

NOTE 7: **LONG-TERM DEBT OBLIGATIONS**

	BALANCE, JANUARY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2004	DUE WITHIN ONE YEAR
Component Units				
\$975,000 1992 Local Development Finance Authority Bonds due in annual installments of \$75,000 to \$100,000 through December 1, 2009; interest at 6.40% to 6.90%.	\$ 87,416	\$(13,630)	\$ 73,786	\$ 27,115
\$250,000 1993 CDBG Loan to Michigan Department of Commerce. The loan is due in monthly installments of \$12,414 through February, 2007; interest at 3.00%	<u>475,000</u>	<u> </u>	<u>475,000</u>	<u>75,000</u>
TOTAL COMPONENT UNITS	\$ <u>562,416</u>	\$(<u>13,630</u>)	548,786	\$ <u>102,115</u>
Less: amounts payable within on year			(<u>102,115</u>)	
TOTAL LONG-TERM OBLIGATIONS GOVERNMENTAL ACTIVITIES COMPONENT UNITS			\$ <u>446,671</u>	
Business-Type Activities				
\$1,475,000 Water Supply System Bonds, Series 1991 due in annual installments of \$80,000 to \$130,000 through November 1, 2011; interest at 6.25% to 6.50%	\$ 830,000	\$	\$ 830,000	\$ 80,000
\$1,745,000 Drinking Water Bonds due in annual installments of \$75,000 to \$110,000; interest at 2.50%. The bonds are due in full in April, 2002	1,294,806	(65,000)	1,229,806	65,000
\$358,000 Note payable to Steve Mair for purchase of generator. The note is due in monthly installments of \$4,250 with interest of 7.00% to 8.50%. The note is due in November, 2008	<u>211,281</u>	(<u>14,529</u>)	<u>196,452</u>	<u>37,768</u>
TOTAL BUSINESS-TYPE ACTIVITIES	\$ <u>2,336,087</u>	\$(<u>79,529</u>)	2,256,258	\$ <u>182,768</u>
Less: amounts payable within one year			(<u>182,768</u>)	
TOTAL LONG-TERM OBLIGATIONS BUSINESS-TYPE ACTIVITIES			\$ <u>2,073,490</u>	

NOTE 7: **LONG-TERM DEBT OBLIGATIONS - Concluded**

BALANCE, JANUARY 1, 2004	ADDITIONS (DEDUCTIONS)	BALANCE, JUNE 30, 2004	DUE WITHIN ONE YEAR
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Annual debt service requirements to maturity for primary government obligations are as follows:

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>	
YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2005	\$ 125,000	\$ 160,538	\$ 182,768	\$ 94,766
2006	125,000	156,163	190,700	85,052
2007	125,000	151,788	208,859	74,584
2008	150,000	147,100	217,264	63,213
2009	150,000	141,100	201,860	51,621
Thereafter	<u>2,725,000</u>	<u>1,070,100</u>	<u>1,254,807</u>	<u>177,860</u>
	<u>\$ 3,400,000</u>	<u>\$ 1,826,789</u>	<u>\$ 2,256,258</u>	<u>\$ 547,096</u>

Annual debt service requirements to maturity for component unit long-term obligations are as follows:

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST
2005	\$ 102,115	\$ 31,104
2006	102,939	25,441
2007	93,732	19,715
2008	75,000	14,513
2009	75,000	9,450
Thereafter	<u>100,000</u>	<u>3,450</u>
	<u>\$ 548,786</u>	<u>\$ 103,673</u>

NOTE 8: **DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945 as amended. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units, and requires a contribution from the employees of 0 - 10 percent of gross wages.

Annual Pension Cost

For the year ended December 31, 2002, the City's annual pension cost of \$211,580 for the plan was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a ten year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years. The most current information was not available to be included in this report.

NOTE 8: **DEFINED BENEFIT PENSION PLAN**

	FISCAL YEAR ENDED	
	DECEMBER 31, 2003	DECEMBER 31, 2002
Annual pension cost	\$ 211,580	\$ 205,296
Percentage of APC contributed	100%	100%
Net pension obligation		
Actuarial value of assets	3,496,318	3,065,307
Actuarial Accrued Liability	5,588,766	4,937,658
Unfunded AAL	2,092,448	1,872,351
Funded ratio	63%	62%
Covered payroll	2,043,337	2,141,032
UAAL as a percentage of covered payroll	102%	87%

NOTE 9: **OPERATING TRANSFERS**

The following are the operating transfers for the six month period ending June 30, 2004:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
General Fund	\$ <u>560,000</u>	Utility	\$ <u>560,000</u>
Parks and recreation	<u>3,000</u>	General	<u>3,000</u>
Debt Service - LDFA	16,025	Industrial Park	30,509
Debt Service - CDBG	<u>14,484</u>		
Subtotal	<u>30,509</u>	Subtotal	<u>30,509</u>
Local Street	<u>15,000</u>	Major Street	<u>15,000</u>
Building Department	<u>30,000</u>	General	<u>30,000</u>
General	<u>75,000</u>	Industrial Park	<u>75,000</u>
Debt Service -			
Building Authority	<u>207,500</u>	General	<u>207,500</u>
TOTAL	\$ <u>921,009</u>	TOTAL	\$ <u>921,009</u>

NOTE 10: **SEGMENT INFORMATION FOR INDIVIDUAL ENTERPRISE FUNDS**

	UTILITY FUND	INTERNAL SERVICE FUND
Operating revenues	\$ 3,942,738	\$ 298,598
Depreciation	250,835	7,559
Operating income (loss)	483,236	3,274
Operating transfers in (out)	(560,000)	
Net income (loss)	(94,886)	3,274
Property, plant and equipment		
Additions	280,572	
Bonds and notes payable	2,256,258	
Net working capital	2,463,557	194,625
Total assets	11,426,819	206,173
Total equity	8,465,071	206,173

NOTE 11: AMORTIZATION OF CONTRIBUTED CAPITAL

The City received grants from the state and federal government in 1976-1979 for the purpose of constructing and equipping a waste water treatment plant. The contributions are being amortized over the useful lives of the assets acquired. The City received grants from the State and Federal Government in 1993 and 1994 for the purpose of constructing water, electric and waste water systems in the Island City Industrial Park. The contributions are being amortized over the useful lives of the assets acquired. Contributed Capital has been combined with Net Assets for the government-wide statements.

NOTE 12: CONTINGENCIES AND LITIGATION

As of June 30, 2004, there were several lawsuits pending against the City. However, in our opinion, with which the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

NOTE 13: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that Cities and other local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the City Council.

For the six month period ended June 30, 2004, the City of Eaton Rapids had the following funds which had expenditures which exceeded the budgets adopted by the City Council:

FUND/FUND TYPE	BUDGET	ACTUAL	UNFAVORABLE VARIANCE
GENERAL FUND			
Administration			
Attorney	\$ 60,000	\$ 67,309	\$(7,309)
Planning commission	3,220	8,950	(5,730)
City election	3,300	3,992	(692)

NOTE 14: FUND EQUITY RESERVES

As disclosed in Note 1-O, portions of fund equity are segregated for future use and are, therefore, not available for future appropriation or expenditure. These fund equity reserves as of June 30, 2004 are as follows:

FUND BALANCES:

Reserved for Fire Department Equipment

This amount reflects the fund balance to be used for fire department equipment.

Reserved for Island Park Restoration

This amount reflects the fund balance reserved for Island Park clean up project.

Reserved for Building Authority

This amount reflects the fund balance reserved for the Public Safety Building and City Hall Building.

Reserved for TIFA I

This amount reflects the fund balance to be used for public improvement projects in the corresponding districts.

Reserved for TIFA II

This amount reflects the fund balance to be used for public improvement projects in the corresponding districts.

Reserved for Debt Service

All Debt Service Funds' fund balances are designated by City management to be utilized for future debt service expenditures.

NOTE 14: **FUND EQUITY RESERVES - Concluded**

RETAINED EARNINGS:

Utility Fund

Reserved for Bond Retirement

This amount reflects the City's savings due to the wholesale interruptible rate savings. These monies are to be used for debt retirement of the Water Supply System Bonds.

Reserved for Water

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the water department.

Reserved for Sewer

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the sewer department.

Utility Fund - Concluded

Reserved for Electric

These amounts reflect the portion of retained earnings to be used for purchasing fixed assets and equipment for the Electric Department.

Reserved for Economic Development

These amounts reflect the portion of retained earnings to be used for future insurance in investment of Magnesium Products.

Reserved for Perpetual Care

This amounts reflects the portion of retained earnings to be used for the Cemetery Perpetual Care.

NOTE 15: **WORKERS' COMPENSATION INSURANCE**

The City belongs to the Michigan Municipal Liability and Property Pool for disability worker's compensation insurance.

The Michigan Municipal Liability and Property Pool was established in 1982 under Public Act 138 of 1982, as amended by Public Act 36 of 1988, to develop and administer a group program of liability and property self insurance for Michigan municipalities. The objectives of the Pool are to establish and administer a municipal risk management service, to reduce the incidence of property and casualty losses occurring in the operation of local governmental functions, and to defend members of the Pool against stated liability or loss.

Member contributions are combined to provide each member with coverage for liability and property claims. Any funds not needed to pay claims and maintain prudent reserves will be available for distribution to the members or credit toward future member contributions.

NOTE 16: **FUND BALANCE**

The City had no funds in a deficit position as of June 30, 2004.

NOTE 17: SUBSEQUENT EVENT

A resolution was passed in February, 2004, by the citizens of the City to issue general obligation unlimited tax bonds in the amount of \$9,800,000. The bonds were issued in September, 2004 for \$9,545,000 and will be used for improvements to the City's wastewater system. An extra millage will begin in December, 2004 to help pay for the cost of these improvements.

NOTE 18: PRIOR PERIOD ADJUSTMENT

The following prior period adjustments were made in the Utility fund:

Reclass prior year transfer out	\$(415,097)
Prior year accrued interest payable	(26,095)
Prior year accrued sick and vacation	(3,884)
	<u>\$(445,076)</u>

The following prior period adjustments were made in the component units:

L DFA	
To record prior year cost of land	\$ 187,548
D D A	
To record prior year cost of land	<u>139,184</u>
	<u>\$ 326,732</u>

NOTE 19: LONG-TERM LEASE

The Building Authority is a party to a long-term lease agreement for rental of the public safety building to the City of Eaton Rapids, Michigan. The lease stipulates that fixed annual rentals will be paid to the Authority by the City of Eaton Rapids, Michigan and such rentals are pledged exclusively for payment of principal and interest on the Building Authority bonds. In addition, the City pledges its unlimited tax, full faith, and credit as security under the lease. Fixed annual rentals will cease after all bonds have been retired and advance rentals repaid on March 1, 2022. The lease agreement provides, further, that after all bonds are retired and advance rentals repaid, title to the land and buildings will vest to the City of Eaton Rapids.

The long-term lease has been accounted for as a capital lease in the debt service fund. The net leasehold receivable represents the present value of future minimum lease payments due from the City. Revenue represented by the non-current portion of the receivable is deferred until it becomes a current receivable. Future minimum lease payments scheduled to be received by the Authority from the City (including unearned finance income of \$1,826,790) are as follows:

2005	\$ 285,538
2006	281,163
2007	276,788
2008	297,100
2009	291,100
2010	284,800
2011	278,275
2012	296,600
2013	288,725
2014	280,588
Thereafter	<u>2,366,113</u>
	<u>\$ 5,226,790</u>

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are police and fire protection, building safety and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

BALANCE SHEET

JUNE 30, 2004

ASSETS

Imprest cash	\$	325
Cash and cash equivalents		607,115
Accrued interest		281
Due from other funds		7,651
Due from federal/state		184,847
TOTAL ASSETS	\$	<u>800,219</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	32,758
Accrued payroll and payroll taxes		<u>32,456</u>
TOTAL LIABILITIES		<u>65,214</u>

FUND BALANCE

Unreserved and undesignated		<u>735,005</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u>800,219</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

GENERAL FUND

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$ 790,050	\$ 863,885	\$ 73,835
Licenses and permits	23,500	290	(23,210)
Intergovernmental			
State	525,200	258,456	(266,744)
Charges for services	50,900	45,846	(5,054)
Reimbursements	500		(500)
Fines and forfeitures	34,800	30,583	(4,217)
Interest	24,000	11,290	(12,710)
Rentals	25,740	15,155	(10,585)
Sales	18,500	10,414	(8,086)
Other	16,050	33,263	17,213
TOTAL REVENUES	1,509,240	1,269,182	(240,058)
EXPENDITURES	2,096,740	1,166,666	930,074
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(587,500)	102,516	690,016
OTHER FINANCING SOURCES (USES)			
Operating transfers in	635,000	635,000	
Operating transfers out	(202,500)	(240,500)	(38,000)
TOTAL OTHER FINANCING SOURCES (USES)	432,500	394,500	(38,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(155,000)	497,016	652,016
FUND BALANCE, JANUARY 1	237,989	237,989	
FUND BALANCE, JUNE 30	\$ 82,989	\$ 735,005	\$ 652,016

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

STATEMENT OF EXPENDITURES

BUDGET AND ACTUAL

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

EXPENDITURES	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Administration			
City Council	\$ 28,300	\$ 23,059	\$ 5,241
City Manager	4,200	712	3,488
General election	7,400	206	7,194
Assessor	78,586	41,322	37,264
Attorney	60,000	67,309	(7,309)
Clerk-Treasurer	80,592	43,491	37,101
Board of review	700	210	490
Building and grounds	11,500	9,138	2,362
Planning commission	3,220	8,950	(5,730)
Zoning board of appeals	800	200	600
Senior citizens	6,000		6,000
City election	3,300	3,992	(692)
General - unallocated	79,250	55,120	24,130
Police	785,515	389,535	395,980
Cemetery	150,831	85,624	65,207
Fire	88,020	39,353	48,667
Public works	438,821	272,797	166,024
Storm sewers	18,450	13,048	5,402
Ambulance	100		100
Library	205,805	101,963	103,842
Community development	2,500	2,500	
Contingencies	500		500
Capital outlay	42,350	8,137	34,213
TOTAL EXPENDITURES	<u>\$ 2,096,740</u>	<u>\$ 1,166,666</u>	<u>\$ 930,074</u>

NON-MAJOR SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The non-major Special Revenue Funds in Eaton Rapids are the Act 302 Training, Building Department, CDBG Grant, and Drug Law Enforcement Fund.

CITY OF EATON RAPIDS, MICHIGAN
COMBINING BALANCE SHEET
NON- MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2004

	ACT 302 TRAINING	BUILDING DEPARTMENT	CDBG GRANT	DRUG LAW ENFORCEMENT	TOTALS
ASSETS					
Cash and cash equivalents	\$ 13,143	\$ 16,258	\$ 4,385	\$ 1,002	\$ 34,788
Accrued interest	12				12
TOTAL ASSETS	<u>\$ 13,155</u>	<u>\$ 16,258</u>	<u>\$ 4,385</u>	<u>\$ 1,002</u>	<u>\$ 34,800</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$	\$ 883	\$ 942	\$	\$ 1,825
Accrued payroll and payroll taxes		1,750			1,750
TOTAL LIABILITIES		<u>2,633</u>	<u>942</u>		<u>3,575</u>
FUND BALANCE					
Unreserved and undesignated	<u>13,155</u>	<u>13,625</u>	<u>3,443</u>	<u>1,002</u>	<u>31,225</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 13,155</u>	<u>\$ 16,258</u>	<u>\$ 4,385</u>	<u>\$ 1,002</u>	<u>\$ 34,800</u>

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE SIXTH MONTH PERIOD ENDED JUNE 30, 2004

	ACT 302 TRAINING	BUILDING DEPARTMENT	CDBG GRANT	DRUG LAW ENFORCEMENT	TOTALS
REVENUES					
Charges for services	\$	\$ 14,334	\$	\$	\$ 14,334
Interest	67		4	2	73
Other revenue	978				978
TOTAL REVENUES	<u>1,045</u>	<u>14,334</u>	<u>4</u>	<u>2</u>	<u>15,385</u>
EXPENDITURES					
Community development	1,650		3,145		4,795
Other		41,509			41,509
TOTAL EXPENDITURES	<u>1,650</u>	<u>41,509</u>	<u>3,145</u>		<u>46,304</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(605)</u>	<u>(27,175)</u>	<u>(3,141)</u>	<u>2</u>	<u>(30,919)</u>
OTHER FINANCING SOURCES					
Operating transfers in		30,000			30,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(605)</u>	<u>2,825</u>	<u>(3,141)</u>	<u>2</u>	<u>(919)</u>
FUND BALANCE, JANUARY 1	<u>13,760</u>	<u>10,800</u>	<u>6,584</u>	<u>1,000</u>	<u>32,144</u>
FUND BALANCE, JUNE 30	<u>\$ 13,155</u>	<u>\$ 13,625</u>	<u>\$ 3,443</u>	<u>\$ 1,002</u>	<u>\$ 31,225</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

ACT 302 TRAINING

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Interest	\$ 200	\$ 67	\$ (133)
Other revenue	<u>1,000</u>	<u>978</u>	<u>(22)</u>
TOTAL REVENUES	<u>1,200</u>	<u>1,045</u>	<u>(155)</u>
EXPENDITURES			
Community development	<u>2,700</u>	<u>1,650</u>	<u>1,050</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,500)	605	895
FUND BALANCE, JANUARY 1	<u>13,760</u>	<u>13,760</u>	
FUND BALANCE, JUNE 30	<u>\$ 12,260</u>	<u>\$ 13,155</u>	<u>\$ 895</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

BUILDING DEPARTMENT

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for services	\$ <u>61,000</u>	\$ <u>14,334</u>	\$ <u>(46,666)</u>
EXPENDITURES			
Other	<u>76,000</u>	<u>41,509</u>	<u>34,491</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(15,000)	(27,175)	(12,175)
OTHER FINANCING SOURCES			
Operating transfer in	<u>45,000</u>	<u>30,000</u>	<u>(15,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	30,000	2,825	(27,175)
FUND BALANCE, JANUARY 1	<u>10,800</u>	<u>10,800</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>40,800</u></u>	\$ <u><u>13,625</u></u>	\$ <u><u>(27,175)</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

CDBG GRANT

FOR THE SIX MONTH PERIOD ENDED JUNE 30,2004

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
State grant	\$ 350,000	\$	\$ (350,000)
Interest income	<u>3,500</u>	<u>4</u>	<u>(3,496)</u>
TOTAL REVENUES	<u>353,500</u>	<u>4</u>	<u>(353,496)</u>
EXPENDITURES			
Community development	<u>353,500</u>	<u>3,145</u>	<u>350,355</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES		(3,141)	(3,141)
FUND BALANCE, JANAUARY 1	<u>6,584</u>	<u>6,584</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>6,584</u></u>	\$ <u><u>3,443</u></u>	\$ <u><u>(3,141)</u></u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

DRUG LAW ENFORCEMENT

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Fines and forfeitures	\$ 250	\$	\$ (250)
Interest	<u>50</u>	<u>2</u>	<u>(48)</u>
TOTAL REVENUES	<u>300</u>	<u>2</u>	<u>(298)</u>
EXPENDITURES			
Public safety	<u>300</u>	<u></u>	<u>300</u>
EXCESS OF REVENUES OVER EXPENDITURES		2	2
FUND BALANCE, JANUARY 1	<u>1,000</u>	<u>1,000</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>1,000</u></u>	\$ <u><u>1,002</u></u>	\$ <u><u>2</u></u>

CAPITAL PROJECTS FUNDS

Capital Projects Funds are designed to account for the resources expended to acquire assets of a relatively permanent nature. (Enterprise Fund resources are not included in this category). These funds satisfy the special accounting requirements for bond proceeds and projects utilizing more than one funding source.

Capital Projects Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose, and further enables them to report to creditors and other grantors of Capital Projects Funds revenue, that their requirement regarding the use of the revenue was fully satisfied.

The Public Improvement Fund operates as a Capital Projects Fund.

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
BALANCE SHEET
PUBLIC IMPROVEMENT
JUNE 30, 2004

	PUBLIC IMPROVEMENT
ASSETS	
Cash and cash equivalents	\$ 120,101
Accrued interest receivable	<u>106</u>
TOTAL ASSETS	\$ <u><u>120,207</u></u>
LIABILITIES	
Accounts payable	\$ <u> </u>
FUND BALANCE	
Reserved for fire	<u>120,207</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>120,207</u></u>

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PUBLIC IMPROVEMENT
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Sale of vehicle	\$ 1,000	\$	\$ (1,000)
Interest earned	<u>1,600</u>	<u>625</u>	<u>(975)</u>
TOTAL REVENUES	<u>2,600</u>	<u>625</u>	<u>(1,975)</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>20,000</u>	<u></u>	<u>(20,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	22,600	625	(21,975)
FUND BALANCE, JANUARY 1	<u>119,582</u>	<u>119,582</u>	<u></u>
FUND BALANCE, JUNE 30	<u>\$ 142,182</u>	<u>\$ 120,207</u>	<u>\$ (21,975)</u>

ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominately self-supporting by user charges. The significant characteristic of Enterprise Funds is that the accounting system must make it possible to show whether the activity is operated at a profit or loss, similar to comparable private enterprise. Thus, the reports of Enterprise Funds are self-contained and creditors, legislators or the general public can evaluate the performance of the municipal enterprise on the same basis as they can the performance of investor-owned enterprises in the same industry.

The Utility Fund is operated as an Enterprise Fund.

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

BALANCE SHEET

JUNE 30, 2004

ASSETS

CURRENT ASSETS

Imprest cash	\$ 450
Cash and cash equivalents	2,055,159
Receivables	
Accounts - net of allowance for doubtful accounts of \$6,871 in 2004	718,327
Other	9,058
Accrued interest	2,395
Note receivable - current portion	912
Inventory - at lower of cost or market	364,524
TOTAL CURRENT ASSETS	<u>3,150,825</u>

RESTRICTED ASSETS

Electric utility reserve	
Certificate of deposit	461,647
Accrued interest receivable	3,292
Customer meter deposits	120,990
Sewer reserve	
Certificate of deposit	223,987
Accrued interest receivable	999
Bond retirement reserve	
Certificate of deposit	612,587
Accrued interest receivable	10,460
Economic Development Reserve	
Certificate of deposit	350,339
Accrued interest receivable	1,686
TOTAL RESTRICTED ASSETS	<u>1,785,987</u>

PROPERTY, PLANT AND EQUIPMENT

Water department	5,259,067
Electric department	5,272,300
Sewage department	4,961,953
	15,493,320
Less: accumulated depreciation	<u>9,025,685</u>
NET PROPERTY PLANT AND EQUIPMENT	<u>6,467,635</u>

OTHER ASSETS

Note receivable - long-term	<u>22,372</u>
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TOTAL ASSETS	<u>\$ 11,426,819</u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Bonds payable	\$ 145,000
Note payable	37,768
Accounts payable	488,997
Accrued interest payable	25,599
Accrued sick and vacation	41,732
Accrued payroll and payroll taxes	27,807
Due to state	<u>365</u>

TOTAL CURRENT LIABILITIES

767,268

LONG-TERM DEBT

Bond payable	1,914,806
Note payable	<u>158,684</u>

TOTAL LONG-TERM DEBT

2,073,490

RESTRICTED LIABILITIES

Refundable meter deposits	<u>120,990</u>
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TOTAL LIABILITIES

2,961,748

FUND EQUITY

CONTRIBUTED CAPITAL

Local	351,584
Federal - net of amortization of \$1,997,642 in 2004	900,870
State - net of amortization of \$223,270 in 2004	<u>380,006</u>

TOTAL CONTRIBUTED CAPITAL

1,632,460

RETAINED EARNINGS

Reserved for Economic Development	401,174
Reserved for Electric Utility	376,513
Reserved for Water Utility	441,491
Reserved for Sewer Utility	240,746
Reserved for Bond Retirement	15,527
Unreserved	<u>5,357,160</u>

TOTAL RETAINED EARNINGS

6,832,611

TOTAL FUND EQUITY

8,465,071

TOTAL LIABILITIES AND FUND EQUITY

\$ 11,426,819

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

OPERATING REVENUES	
Charges for services	\$ 3,927,788
Fines and forfeitures	7,113
Other revenue	<u>7,837</u>
TOTAL OPERATING REVENUES	<u>3,942,738</u>
OPERATING EXPENSES	
Operating expenses	3,208,667
Depreciation	<u>250,835</u>
TOTAL OPERATING EXPENSES	<u>3,459,502</u>
OPERATING INCOME	<u>483,236</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and fees on bonds	(49,155)
Interest on investments	<u>31,033</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(18,122)</u>
NET INCOME BEFORE OPERATING TRANSFERS	465,114
OPERATING TRANSFERS OUT	<u>(560,000)</u>
NET LOSS	(94,886)
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITION AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	49,018
RETAINED EARNINGS, JANUARY 1	7,323,555
PRIOR PERIOD ADJUSTMENT	<u>(445,076)</u>
RETAINED EARNINGS, JUNE 30	<u><u>\$ 6,832,611</u></u>

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

STATEMENT OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 3,881,458
Cash received from penalties	7,113
Cash received from miscellaneous sources	7,838
Payments to suppliers	(2,655,265)
Payments to employees	(499,622)

NET CASH PROVIDED BY OPERATING ACTIVITIES

741,522

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>22,949</u>
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CASH FLOWS FROM NON-CAPITAL

FINANCING ACTIVITIES

Operating transfers out	<u>(560,000)</u>
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CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES

Increase in restricted assets	(10,160)
Increase in restricted liabilities	10,160
Decrease in long-term debt	(79,829)
Interest and fiscal charges	(49,500)
Purchase of capital assets	<u>(279,571)</u>

NET CASH USED IN CAPITAL AND RELATED

FINANCING ACTIVITIES

(408,900)

NET DECREASE IN CASH AND

CASH EQUIVALENTS

(204,429)

CASH AND CASH EQUIVALENTS, JANUARY 1

2,260,038

CASH AND CASH EQUIVALENTS, JUNE 30

\$ 2,055,609

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF CASH FLOWS - Concluded
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY(USED IN) OPERATIONS

Operating income	\$ 483,236
Adjustments to reconcile operating income to net cash provided by(used in) operating activities	
Depreciation	250,835
Change in assets and liabilities	
Increase in accounts receivable	(46,330)
Decrease in due from other funds	19,990
Increase in inventory	(19,151)
Increase in accounts payable	19,908
Decrease in accrued payroll	(5,041)
Increase in accrued sick and vacation	37,848
Increase in other liabilities	<u>227</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 741,522</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
ANALYSIS OF REVENUES AND EXPENSES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	ELECTRIC DEPARTMENT	WATER DEPARTMENT	SEWAGE DEPARTMENT	TOTAL
REVENUES				
Charges for services	\$ 3,237,780	\$ 333,124	\$ 356,884	\$ 3,927,788
Fines and forfeitures	7,113			7,113
Other revenue	4,773	691	2,373	7,837
TOTAL REVENUES	<u>3,249,666</u>	<u>333,815</u>	<u>359,257</u>	<u>3,942,738</u>
OPERATING EXPENSES	2,547,758	252,732	408,177	3,208,667
DEPRECIATION	109,474	75,095	66,266	250,835
TOTAL OPERATING EXPENSES	<u>2,657,232</u>	<u>327,827</u>	<u>474,443</u>	<u>3,459,502</u>
OPERATING INCOME (LOSS)	<u>592,434</u>	<u>5,988</u>	<u>(115,186)</u>	<u>483,236</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest and fees on bonds	(6,418)	(42,585)	(152)	(49,155)
Interest on investments	31,033			31,033
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>24,615</u>	<u>(42,585)</u>	<u>(152)</u>	<u>(18,122)</u>
NET INCOME (LOSS) BEFORE OPERATING TRANSFERS	617,049	(36,597)	(115,338)	465,114
OPERATING TRANSFERS OUT	<u>(560,000)</u>			<u>(560,000)</u>
NET INCOME (LOSS)	<u>\$ 57,049</u>	<u>\$ (36,597)</u>	<u>\$ (115,338)</u>	<u>\$ (94,886)</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF OPERATING EXPENSES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	ELECTRIC	WATER	SEWAGE	TOTAL
OPERATING EXPENSES				
Personnel services	\$ 200,039	\$ 122,123	\$ 210,266	\$ 532,428
Contractual services	49,599	8,805	8,701	67,105
Supplies	7,110	3,763	5,030	15,903
Materials	14,300	28,099	22,685	65,084
Utilities	976	19,159	49,871	70,006
Telephone	5,840	1,888	1,430	9,158
Insurance	16,687	5,680	11,153	33,520
Maintenance	2,165,738	17,386	20,967	2,204,091
Benefit payments	61,278	44,580	72,724	178,582
Other expense	26,191	1,249	5,350	32,790
Depreciation	<u>109,474</u>	<u>75,095</u>	<u>66,266</u>	<u>250,835</u>
TOTAL OPERATING EXPENSES	\$ <u><u>2,657,232</u></u>	\$ <u><u>327,827</u></u>	\$ <u><u>474,443</u></u>	\$ <u><u>3,459,502</u></u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost or reimbursement basis.

The Public Employee Benefit Fund and Motor Vehicle Pool are operated as Internal Service Funds.

CITY OF EATON RAPIDS, MICHIGAN

COMBINING BALANCE SHEET

INTERNAL SERVICE FUNDS

JUNE 30, 2004

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$ <u>9,853</u>	\$ <u>184,772</u>	\$ <u>194,625</u>
EQUIPMENT			
Vehicles		37,826	37,826
Less: accumulated depreciation	<u> </u>	<u>26,278</u>	<u>26,278</u>
NET EQUIPMENT	<u> </u>	<u>11,548</u>	<u>11,548</u>
TOTAL ASSETS	\$ <u><u>9,853</u></u>	\$ <u><u>196,320</u></u>	\$ <u><u>206,173</u></u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
FUND EQUITY			
Unreserved	<u>9,853</u>	<u>196,320</u>	<u>206,173</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>9,853</u></u>	\$ <u><u>196,320</u></u>	\$ <u><u>206,173</u></u>

CITY OF EATON RAPIDS, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

INTERNAL SERVICE FUNDS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
OPERATING REVENUES			
Contributions from other funds	\$ 290,801	\$	\$ 290,801
Other revenue	<u>5,249</u>	<u>2,548</u>	<u>7,797</u>
TOTAL OPERATING REVENUES	<u>296,050</u>	<u>2,548</u>	<u>298,598</u>
OPERATING EXPENSES			
Depreciation		7,559	7,559
Benefit payments	<u>287,765</u>	<u></u>	<u>287,765</u>
TOTAL OPERATING EXPENSES	<u>287,765</u>	<u>7,559</u>	<u>295,324</u>
OPERATING INCOME (LOSS)	<u>8,285</u>	<u>(5,011)</u>	<u>3,274</u>
RETAINED EARNINGS, JANUARY 1	<u>1,568</u>	<u>201,331</u>	<u>202,899</u>
RETAINED EARNINGS, JUNE 30	\$ <u><u>9,853</u></u>	\$ <u><u>196,320</u></u>	\$ <u><u>206,173</u></u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$ 290,801	\$	\$ 290,801
Cash received from miscellaneous	5,249	2,548	7,797
Payment to vendors	<u>(287,765)</u>		<u>(287,765)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,285</u>	<u>2,548</u>	<u>10,833</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,285	2,548	10,833
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,568</u>	<u>182,224</u>	<u>183,792</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u><u>9,853</u></u>	\$ <u><u>184,772</u></u>	\$ <u><u>194,625</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 8,285	\$ (5,011)	\$ 3,274
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	<u></u>	<u>7,559</u>	<u>7,559</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>8,285</u></u>	\$ <u><u>2,548</u></u>	\$ <u><u>10,833</u></u>

PERMANENT FUNDS

The permanent funds exist to account for resources legally held in trust to be used for Cemetery Perpetual Care Fund and the Ted Oliver Memorial Fund.

CITY OF EATON RAPIDS, MICHIGAN

PERMANENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2004

	NONEXPENDABLE TRUST FUND CEMETERY PERPETUAL CARE FUND	NONEXPENDABLE TRUST FUND TED OLIVER MEMORIAL FUND	TOTALS
ASSETS			
Cash and cash equivalents	\$ <u>116,966</u>	\$ <u>1,122</u>	\$ <u>118,088</u>
FUND BALANCE			
Reserved for perpetual care	\$ 116,966	\$	\$ 116,966
Reserved for fire equipment	<u> </u>	<u>1,122</u>	<u>1,122</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>116,966</u>	\$ <u>1,122</u>	\$ <u>118,088</u>

CITY OF EATON RAPIDS, MICHIGAN

PERMANENT FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	CEMETERY PERPETUAL CARE FUND	TED OLIVER MEMORIAL TRUST FUND	TOTALS
REVENUES			
Perpetual care receipts	\$ <u>1,341</u>	\$ <u></u>	\$ <u>1,341</u>
FUND BALANCE, JANUARY 1	<u>115,625</u>	<u>1,122</u>	<u>116,747</u>
FUND BALANCE, JUNE 30	\$ <u><u>116,966</u></u>	\$ <u><u>1,122</u></u>	\$ <u><u>118,088</u></u>

CITY OF EATON RAPIDS, MICHIGAN

PERMANENT FUNDS

STATEMENT OF CASH FLOWS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

	CEMETERY PERPETUAL CARE FUND	TED OLIVER MEMORIAL TRUST FUND	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ <u>1,341</u>	\$ <u> </u>	\$ <u>1,341</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,341		1,341
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>115,625</u>	<u>1,122</u>	<u>116,747</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u><u>116,966</u></u>	\$ <u><u>1,122</u></u>	\$ <u><u>118,088</u></u>



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED
ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have audited the general purpose financial statements of the City of Eaton Rapids, Michigan as of and for the six month period ended June 30, 2004, and have issued our report thereon dated November 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether City of Eaton Rapids' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Eaton Rapids' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Eaton Rapids in a separate communication dated November 20, 2004.

This report is intended for the information of management of the City of Eaton Rapids. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
November 20, 2004



LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have examined the financial statements of the CITY OF EATON RAPIDS, MICHIGAN for the six month period ended June 30, 2004, and have issued our report thereon dated November 20, 2004. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Eaton Rapids is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Eaton Rapids may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses during the current year's audit.

PRIOR YEAR'S RECOMMENDATIONS

Utility Receivables

An adjustment had to be made to balance the utilities receivables to the general ledger. We recommend that the utility receivable trial balance be reconciled monthly to the general ledger. This will ensure more accuracy in the utility billing procedures. **This recommendation has not been implemented, but is in the process of being corrected during the current year.**

PRIOR YEAR'S RECOMMENDATIONS - Concluded

Utility Meter Deposits

We noted during our audit that an adjustment needed to be made to balance utility meter deposit accounts. We recommend that this account be reconciled to the general ledger on a monthly basis. This will ensure better accuracy of the utility meter deposits. **This recommendation has not been implemented. We understand that the difference results from a software problem and will be corrected during the current year.**

Accounts Payable Procedures

We noted during the audit that the same person who prepares the accounts payable checks is also an authorized check signer. We recommend that the person who is responsible for preparing the accounts payable checks be removed as an authorized check signer from all of the City's bank accounts. A person independent of the accounts payable function should receive the signed checks and prepare them for mailing. This will provide increased controls in the accounts payable area. **Management response: Due to the small staff size at the City, it is very difficult to segregate this duty. The person that prepares the accounts payable checks is considered a backup check signor only. All checks require two authorized signatures. Also, a person independent of accounts payable function prepares them for mailing.**

Property Taxes

It was noted during the audit that the IFT summer tax collections were inadvertently paid to the local units. The IFT summer tax collections are held at the City until the County settlement is performed in March of the following year. This was discussed with management and it is our understanding that the IFT monies will be recovered. We recommend that the tax fund general ledger be reconciled with property tax software on a monthly basis to ensure that all property tax collections and payments are recorded properly. **Management response: This is currently in the process of being reconciled.**

CURRENT YEAR RECOMMENDATIONS

Payroll

Payroll checks are given back to the person who processes payroll and prints the checks. We recommend giving the checks to a person other than the person who processes payroll after they are signed. This will reduce the chance of theft and fraud. It will also reduce the chance of a "ghost" employee, and will improve controls over payroll. **Management response: An employee that is separate from the payroll procedures receives the signed paychecks.**

Payroll checks are enveloped and sent to the department heads for distribution. We recommend at least twice a year the checks be hand delivered to the employees by someone other than department head, who is also independent of the payroll functions. This will reduce the chance of a "ghost" employee, help prevent fraud and improve controls over payroll.

Some employee files are missing payroll deduction authorization forms. We recommend all deductions have an authorization form filled out and kept in the employee file. This will verify that only authorized deductions are being deducted from employees' payroll.

Some authorization forms in the employees files are either for the wrong amount or very old. We recommend authorization forms be filled out each year for all of the employees' payroll deductions. This will provide accurate and adequate records and verify the correct amount is being deducted from the employees' payroll.

Some payroll deduction authorization forms did not have the amount of the deduction authorized written on the form. We recommend the amount of the authorized deduction be written on all authorization forms. This will verify that the correct amount is being deducted from the employees' payroll.

Cash Disbursements

After cash disbursement checks are approved by the board and the invoices are stamped paid by the ladies at the front counter, they are returned to the person who printed the checks to be mailed. We recommend someone independent of the accounts payable department prepare the checks for mailing. The checks should never be returned after signing to the person who printed them. This will decrease the chance for fraud and improve controls over cash disbursements.

CURRENT YEAR RECOMMENDATIONS - Concluded

General

The City does not have a written internal control policy. We recommend that the City create a written internal control policy stating that deviation from these policies is a possible firing offense. This will prevent fraud and make everyone aware of the City's policy on fraud. **Management response: This is in the process of being implemented.**

Budgets

We noted during the audit that there was a fund that adopted a budget that left a deficit fund balance. This violates P.A. 621 Budgeting Act for the State of Michigan. This fund was the blended component unit – Building Authority. The actual fund balance did not end in a deficit condition.

We are grateful to the officials and employees of the City of Eaton Rapids for the assistance and cooperation we received during the audit, and we thank them.

Very truly yours,

Larson + Richardson, PC

Certified Public Accountants

East Lansing, Michigan
November 20, 2004